



STRATEGIES **FOR SOCIAL PROTECTION** **2010**

**– towards a socially and
economically sustainable society**

MINISTRY OF SOCIAL AFFAIRS AND HEALTH

Helsinki 2001



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– towards a socially and economically sustainable society

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TO THE READER

SIX

Six years ago, when we published the Ministry's strategic lines, we estimated that social protection expenditure as a percentage of GDP would come down to the EU average by 2000. At the time, recession and high unemployment had caused the percentage to rise to such a level that many people doubted our prediction. However, as a consequence of savings measures and economic growth, the percentage has, in fact, fallen more rapidly than expected and is now below the EU average. This confirms our statement of six years ago, when we said that by the turn of the century our social protection would not be overdimensioned in comparison with our competitors in Central and Northern Europe.

While the savings and cost cutting of the 1990s reduced expenditure on social protection, they also moved social protection in a more activating direction. At the time, cost-cutting was seen as inevitable, and it is only now that hindsight allows us to assess the dynamic impact of the changes made back then. However, it is also true that the tight budget made it more difficult to give appropriate attention to many problem areas, thereby merely deferring expenditure into the future.

During these past six years, the world around us has also seen a lot of other changes. We can now see more clearly that changes in population age structure, the growing knowledge-intensity of production and the globalization of the economy all have an impact on social protection, an impact evident above all in the labour market.



Our strategy for the new decade emphasizes anticipation and prevention and the importance of individual responsibility. Promoting and maintaining one's functional capacity and ensuring a dynamic society are the preconditions for both a good society and sustainable social protection. Nevertheless, sickness, unemployment and old age are something we will still have to live with in the future. The need for care and protection extends from earliest childhood to old age. We will continue to need a good and comprehensive social protection system. The policy lines set out here are targeted to that end.

Like its predecessor, the present report has been drawn up by experts at the Ministry. Senior members of staff have been actively involved in guiding the work, with Director of Development Klaus Halla responsible for practical coordination.

Helsinki, March 2001



Markku Lehto
Permanent Secretary

I IN BRIEF

This report sets down the views of the Ministry of Social Affairs and Health on the strategic areas of focus in Finnish social protection policy over the next few years.

Finland in 2010

Our vision for 2010 is for Finland to be a socially and economically sustainable, efficient and dynamic society. The Finnish social protection system will be based on comprehensive collective responsibility. Finland will also be actively involved in shaping European social policy. The wellbeing of our society will be rooted in the maintenance of working capacity and general functional capacity allied to individual initiative.

As envisaged, people in 2010 will be staying on at work for 2-3 years longer than now, the general functional capacity of the population will have improved, elderly people will not need care until a more advanced age, and the health differences between population groups will have been reduced. The quality and availability of services will have been improved through increasingly efficient regional cooperation, income transfers will secure a reasonable income for people while still providing an incentive to work, social protection will have a sustainable financing base, and poverty will be held at the low level of the past few decades.

Strategic lines – reaching for the goal

The Ministry sums up the social protection strategy for the next ten years in four strategic lines. These are:

- promoting health and functional capacity
- making work more attractive
- preventing and combating social exclusion
- providing efficient services and income security

The above strategic lines embrace improved cooperation between primary health care and specialized health care, improved efficiency in occupational health care, support for the general functional capacity of people in different age groups, promotion of lifelong learning, and various themes in environmental health. Other areas highlighted include wellbeing at work, increased gender equality, and social protection which provides an incentive to work. Additional areas of emphasis cover giving priority to preventive policy, early intervention, actions to interrupt long-term unemployment, reducing regional welfare gaps, promoting multiculturalism, controlling substance abuse, and active participation in international policymaking. The key aspects in securing services are the position of the client, quality and diversity of services, adequate supply of labour, management models and regional cooperation. Adequate income security is the key to social cohesion.

The economic impact of the lines

In the next few years, social protection expenditure will grow faster than under the legislation currently in force. Around 2015 this situation will change as the growth in social protection expenditure is slowed below the growth trend according to present legislation by factors such as the rising employment rate, later retirement, improved functional capacity, delayed need for care among the elderly, reduced social exclusion and greater transparency in the financing system. Social welfare and health care services and income security for the baby-boom generation can be dealt with in a controlled manner.



THE GOALS OF REFORM

The purpose of social protection¹

Good social protection is the cornerstone of contemporary society. It covers preventive action, social welfare and health care services and income security. Through regulation and redistribution of resources, the State seeks to ensure that families, workplaces, local communities and the third sector can help carry their share of responsibility for the wellbeing of all. In a rapidly changing society, the social responsibility of the business sector has also become important. Cooperation and interaction between the different actors generates a social capital which is becoming increasingly important in maintaining national competitiveness.

A flexible system of social protection forms the foundation for balancing the rights and duties of the individual. The purpose of social protection is to promote the health and functional capacity of the population, ensure healthy working and living environments, and secure adequate income and services.

As the wellbeing and equality of the population improve, each individual can live in dignity and security and develop and apply their own skills and talents in the different stages of their lives. Social policy has always included care for those least able to protect their own interests.

¹ The concept of 'social protection' is used in this publication in the broadest sense; it thus includes cash benefits, social welfare and health care services, preventive action and occupational health and safety at work.

Finland in 2010

Our vision for 2010 is for Finland to be a socially and economically sustainable, efficient and dynamic society. The Finnish social protection system will still be based on comprehensive collective responsibility. Finland will also be actively involved in shaping European social policy. The wellbeing of our society will be rooted in the maintenance of working capacity and general functional capacity allied to individual initiative.

Our vision for 2010

- People will be staying on at work for 2-3 years longer than they do at present.
- The general functional capacity of the population will have improved and elderly people will not need care until a more advanced age.
- Health differences between population groups will have been reduced.
- Preventive action will have become established as a normal aspect of operations.
- The quality and availability of services will have been improved through increasing regional cooperation.
- Income transfers will secure a reasonable income for people while still providing an incentive to work.
- Social protection will have a sustainable financing base rooted in collective responsibility supplemented by individual responsibility.
- Poverty in Finland will remain at the low level of the last few decades.



THE STRATEGIC L I N E S

– towards 2010

The social protection strategy for the next ten years can be summed up in four strategic lines

- **Promoting health and functional capacity**
- **Making work more attractive**
- **Preventing and combating social exclusion**
- **Providing efficient services and income security**

This section sets out the objectives under the four strategic lines and describes the main measures needed for their implementation.²

² The factors of change in the economic and social environment which underlie the strategic lines are analysed in section 4.

PROMOTING HEALTH AND FUNCTIONAL CAPACITY

The aim is to maintain and improve people's capacity to function physically, psychologically and socially. Health must be made a part of social policy and healthful habits established early in life. Other areas of emphasis include increasing the effectiveness of public health and occupational health care, lifelong learning, encouraging the elderly to live independent lives, reducing health gaps between population groups and developing environmental health.

Measures

Harnessing social policy to support health

Health will be increasingly influenced by action at international level. On the European level, Finland will concentrate on preparation of European Union decisions. Broader international cooperation will focus on contagious diseases, smoking, chemicals and the harmful effects and risks associated with abuse of drugs and alcohol.

Health must be taken into consideration across the broad range of social policy. In order to ensure this, tools will be developed to help assess the health impacts of policy decisions. Broadly based local and regional action to promote health will be supported by the development of 'best practice' models and tools.

Laying the basis for health early in life

An adequate base for lifelong health and fitness must be created in childhood and early youth. Early intervention in children's health problems and insecurities is important, particularly in respect of illnesses and disrupted social development. Cooperation between different authorities in this area must be improved further. Means to this end include making it easier to combine family life with a career, development of the local environment and community life, daycare and schools, and the provision of support for parents.

One aim is to reduce smoking and drinking among young people, postpone the age at which young people start smoking and drinking, and discourage experimentation with drugs. Cooperation between schools, social welfare and health care services, municipal sports and youth work, NGOs and the media can help prevent social exclusion, improve young people's life management skills and health awareness and ensure that the social and health problems linked to drug and alcohol abuse are dealt with in a professional manner. The schools will play a crucial role in providing support for families.

Attention to workforce health and functional capacity

The main aim of health policy for people of working age is to promote working capacity and general functional capacity so that people can stay on in working life for 2-3 years longer than at present. Accidental and violent deaths among men must be brought down closer to the EU average. The unemployed and those in atypical employment must be given access to the same health care and social welfare services as people in permanent employment. Where older workers are concerned, it is essential that the demands of work be adapted to people's physical and psychological capacity.

In occupational health care and occupational health and safety, the emphasis will be on preventing mental problems in the workplace by equating them in terms of seriousness with occupational injuries. Problems with working capacity and ability to cope at work arising from the ageing of the population, including people's ability to stay on at work, will be addressed by promoting action at workplace level. Rehabilitation will be used to help everyone, including the disabled, extend their working life. The emphasis will be on the individual's own responsibility for preserving and improving their own working capacity. The health of students and people outside working life for reasons other than unemployment should also be given adequate attention.

The ability to cope with life in general and learn new things helps people retain their working capacity and general functional capacity throughout their working life. The economy can be reinforced by providing more effective education and training. Formal education and training for young people combined with practical work experience acquired during adulthood and further training and re-training all improve work efficiency, help people stay on in work and enhance the accumulation of intellectual capital. More effective use should be made of the training guarantee in order to ensure lifelong learning and training for people in working life.

New models for helping the elderly

The challenge is to improve the local environment, opportunities for participation and access to services so that they are appropriate even for old people with impaired

functional capacity. The means to achieve this are to influence town and traffic planning and local development and infill building so that they take elderly people's needs into consideration.

Nationwide support will be provided for intermunicipal cooperation and operating models which can help elderly people cope on the physical, psychological and social level and improve their functional capacity. To support this policy, a network could also be established to bring together volunteers, home carers and entrepreneurs involved in nursing and the caring professions. The public sector would be responsible for coordinating operations, providing support for home carers and developing volunteer work.

Clear emphases in environmental health

Environmental health problems do not respect national borders. International initiatives are thus needed to prevent them, but actions on the local and national level as well as joint European actions are also needed. Environmental regulation is based in most respects on EU legislation, which emphasizes market regulation and self-regulation. In developing Community legislation, the specific conditions of Northern Europe must be taken into account, including the high standard which already exists here in environmental health issues.

The main environmental health problems in the next few years will be connected with town planning, traffic emissions, damp damage to buildings, and hazardous microbes and chemicals in food and water. In order to solve these problems, we must increase awareness of environmental health issues and training and information on the subject. Research on environmental health will be developed so that it supports policymaking, in the sense that it should be more useful than at present in evaluating the effectiveness of measures applied to improve the environment. One of the aims of environmental health research is to improve risk assessment and develop information systems and ways of measuring exposure and health hazards. Local environmental health work should also be given additional resources.

MAKING WORK MORE ATTRACTIVE

The purpose of reforming working life and including incentives in the income security system is to increase the number of years people spend at work and the overall attractiveness of work, attain better control over changes in working life, promote wellbeing at work, increase equality and reconcile the demands of work and other areas of life.

Measures

Focus on wellbeing at work

Meaningful work in which the employee's health and safety are ensured is a crucial element for wellbeing and quality of life. Legislation will ensure a good minimum standard for working conditions. The attractiveness of work must be constantly improved in order to ensure that everyone's first choice and overriding priority is to work. Good working conditions will encourage people to stay on in work, boost productivity and be an important competitive factor. At the same time, employment in general should be vigorously promoted and preparations made for dealing with the expected labour shortage.

The primary responsibility for improving working conditions lies with the workplaces themselves. Occupational health and safety, occupational health care and other expert services can all support them in this work. Occupational health care provision will be stepped up especially for small and medium-sized enterprises. The operations of the occupational health and safety authorities will focus increasingly on helping people cope at work and stay on longer in working life. The labour market organizations will also play an important part in workplace development. At workplace level, this is primarily a question of knowledge, willingness and skill.

Equality in working life

Justice and equality in working life are crucial for the wellbeing of the individual. Equality must prevail regardless of gender, age, disability or ethnic origin. Particular attention will be given to the fact that women find psychological pressures harder to bear than men. It is also important for wellbeing that people can reconcile the demands of their career with their family life.

Income security as an incentive to work

Social insurance security must provide a greater incentive to work. Social insurance contributions can be made less like taxation for both the employer and the employee by making a clearer link between contributions and benefits.

Sustainable financing is ultimately dependent on a sufficiently high percentage of the population working. As the working-age population decreases, the productivity of work will have to be raised, people encouraged to stay on at work for longer before retiring, workforce training and family policy measures improved, and barriers lowered to facilitate immigration in search of work. Funding of social insurance will need to be increased. The sustainability of financing will be improved by adding elements of personal responsibility to the social insurance system.

Employment pension insurance

Old age pensions and disability pensions are the core of the employment pension system. Early retirement pensions, such as unemployment pension and individual early retirement pension, will be gradually phased out. Unemployment pension will be replaced primarily by active employment measures. Where employment is no longer a serious option, there will be the option of granting old age pension at a higher rate. Reduction of working capacity will be taken into account in setting the level of part-time pension.

The pension system will be developed so as to allow people to retire flexibly up to the age of 70. Pensions will be changed so that in the future they will be based on a person's earnings throughout their working life, but in such a way as to provide an incentive to education.

The degree of funding in the pension system will be raised in order to redistribute pension costs more evenly between the generations and reduce later pressure to raise contributions as the population ages. The level of contributions should be held stable despite economic cycles. This must also be taken into account in public sector pension systems.

In the interests of family policy and to support alternative care models, it would make sense to encourage the use of private pension insurance compatible with the employment pension, or to create flexible options for private choices alongside the statutory pension system.

The pensions index will be altered to take account of social justice and economic trends. The purchasing power of pensions in real terms should follow the general development of the economy.

In order to ensure the consistency of pension systems, the drafting of pension legislation will be concentrated in the Ministry of Social Affairs and Health. The resources of the Insurance Supervision Authority, which belongs to the same administrative sector, will also be secured in order to ensure effective supervision. Changes in the market will be taken into account in supervision and control; this will apply especially to the formation of financial conglomerates and insurance and banking groups.

Health insurance

The funding balance of health insurance will be re-established. The system for reimbursing the cost of medicines will be reformed. Funding of daily sickness allowance and parental allowance will be separated from financing for occupational health care and reimbursements for medical expenses. Daily sickness allowance and parental allowance are forms of health insurance for employed people to prevent loss of earnings arising due to their own illness or the birth of a child. They are funded through wage-based insurance contributions by employers and employees.

Reimbursement for medical expenses, including the cost of medicines and travel expenses, are a form of health insurance covering all Finnish citizens. Financing comes from health insurance contributions paid by wage-earners, pensioners and employers.

Unemployment security

Unemployment security will be developed as part of the social insurance. Unemployment security is intended as a form of short-term security to support people actively looking for work and promote the flexibility of the labour market. Training measures, steps to maintain working capacity and rehabilitation will be mandatory requirements for receiving unemployment security or early retirement.

Labour market support and basic daily unemployment allowance will be raised in line with the long-term development of the economy. Funding for unemployment security will be adapted to the requirements of low inflation and an economic policy designed to control economic fluctuation. This will be achieved by developing buffer funding and altering the grounds for calculating benefits so as to take account of the conjunctural cycle. Benefits will be linked more closely to contributions.

PREVENTING AND COMBATING SOCIAL EXCLUSION

Comprehensive income security and effective services form the structural foundation for preventing poverty and social exclusion. Factors which increase the risk of exclusion must also be targeted directly. Specific measures should target interrupting long-term unemployment, alleviating the exclusion it causes, intervening at an early stage in the problems of children and young people, reducing regional welfare gaps, supporting multiculturalism and taking action against substance abuse.

Measures

Primacy of prevention

The basis for preventing social exclusion lies in reinforcing the structures of welfare policy and developing operating procedures which cross the boundaries between administrative sectors. During the next few years, we must evaluate and create norms and structures which establish prevention as a part of normal operations. It is particularly important to increase evaluation of social and health impacts in economic and planning policy, regional development, education policy, youth work and employment policy.

We must make sure everyone has a place to live, and provide specific forms of support to help those in the most vulnerable position to attain reasonable housing conditions. Action to reduce homelessness is the key objective in preventing social exclusion.

New approaches to the problems of children and young people

Social attitudes must be changed so that instant intervention and help come to be viewed as cultural and ethical necessities. A new mode of operations which emphasizes joint community responsibility for children and young people must be introduced on a wide front. Teachers and other professionals working with children and young people must be provided with tools for early intervention.

Action against long-term unemployment

The measures available for improving the supply and demand of labour are close cooperation between training and rehabilitation, providing rehabilitation and employment measures for the ageing long-term unemployed, improving the employment potential of the disabled and creating and testing new employment models such as social enterprises. Not all of the long-term unemployed can find employment on the open labour market or, indeed, permanent work of any kind; consequently, we must take steps in other ways to alleviate the problems caused by unemployment and ensure that the unemployed can

participate in society. In order to facilitate life management for those left outside the labour market, we must ensure an adequate minimum income and encourage unemployed people to remain active. In order to reduce structural unemployment, taxation and income transfers will be coordinated so as to make it easier for less skilled and less productive workers to find a job.

Reducing regional welfare gaps

The aims of regional equality and sustainable regional development must be given more prominence. This will require concerted and unprejudiced efforts from all sectors of society. The social welfare and health care authorities support the new regional initiatives for drawing up welfare policy programmes and strategies. These, in turn, will allow local and regional actors to be mobilized behind a unified plan for operations and responsibilities over the next few years.

The system of government grants to the municipalities will be developed so as to make it possible to secure essential welfare services even in poverty-stricken or depopulated areas. Determined work must be done to maintain social cohesion in urban areas; possible areas for action include town planning and providing aid for problem neighbourhoods.

Towards a multicultural society

The cultural diversity of the Finnish population will grow rapidly in the years ahead, especially as a consequence of the expected labour shortages. This will create new opportunities in terms of a diversity of cultures, lifestyles and livelihoods, though it may also increase the risk of cultural conflict. The general aim of social policy is to actively prevent cultural conflicts from coming to a head while promoting the participation in society of all ethnic groups. The goal is a balanced multicultural society. This will require improved skills, activity and preparedness from the social welfare and health care sector, too.

Controlling substance abuse

Forecasts suggest an increase in alcohol consumption and drug abuse over the next few years. Problems of substance abuse have an impact on public health, social relations,

public order, the economy and the labour market. Alcohol and drugs contribute to the problems of people facing a serious threat of social exclusion. The present policy of drugs control based on total prohibition of all distribution and use will be made more effective, steps will be taken to prevent experimentation and abuse of drugs, and adequate care will be provided for addicts. Measures to reduce the damage caused by drugs will also be stepped up.

Controls exercised over price and availability, border checks and measures to maintain public order all help reduce the problems associated with alcohol and drug abuse, but their field of application is becoming increasingly limited. What is needed is increased cooperation between prevention, social welfare and health care and control measures. The general social welfare and health care services and the specific services for alcohol and drug abusers can prevent problems from worsening and spreading. Steps will be taken to improve the level of professional expertise in drug prevention and treatment of addicts. Preventive work will give more responsibility to local communities, providing them with better tools and improving their operating potential. Cooperation between the public authorities and NGOs will be intensified and their expertise pooled in order to ensure effective handling of alcohol and drug abuse problems.

International cooperation as a source of strength

The Nordic welfare state model has always sought to combat poverty and exclusion with the aid of universal social protection. In addition to this traditional approach, the next few years will see targeted actions, programmes and strategies aimed specifically at combating exclusion. Cooperation on the level of the EU, the national, regional and local levels and among NGOs will be reinforced as a part of the systematic effort to prevent exclusion. EU guidelines on the subject can be useful in preparing national policy in this field. Global cooperation on social issues will take on increased importance as economic barriers are removed. The balance between economic and social development is becoming an ever more important factor for securing sustainable development.

PROVIDING EFFICIENT SERVICES AND INCOME SECURITY

Our primary concern must be the people who need and use the services. The system will be based on a wider degree of intermunicipal cooperation than at present, and this will be supported by the financing model. The quality and availability of services must be secured, as must regional equality. The availability of properly skilled staff will become increasingly important. We must also find a functional steering model for the relationship between central government, local government and service providers. A reasonable standard of minimum benefits will ensure income security in different life situations.

Measures

The client's position and the quality of services must be secured

Legislation to secure the position of clients and patients in the social welfare and health care services will continue to provide the basis for strengthening the position of service users. The legislation will, however, also be supplemented by national frameworks for care and services, which will help secure appropriate treatment and access to treatment and care within a reasonable time. Steps will also be taken to make it easier for clients and their families to participate

in planning care and related arrangements. Individual service and care plans drawn up in cooperation with the client will help match client needs with available services and clarify the distribution of labour between the respective authorities. Information technology will be used to establish an effective framework for dialogue and feedback on services. Both service users and the general public will be kept informed on the availability, effectiveness and outcomes of services. NGOs in the social welfare and health care sector will play an important role both in terms of direct influence and in promoting cooperation.

Quality work will be integrated into the normal operating procedures of service organizations, with prevention as a key component. National frameworks for care and services will be developed for use by the municipalities, and these will also be made available for use by other service providers. Evaluation and feedback by clients/patients will be given a more important position in service quality evaluation. Information systems on the content and availability of care will be developed and used on a wider scale in order to facilitate benchmarking. Private services will be required to conform to the same standards as municipal ones.

New technologies such as electronic communications will be employed to facilitate seamless service and care chains. However, we must also be careful to ensure the availability of service alternatives which do not require information technology skills. Local and regional research and development in the social welfare sector will be promoted with the aid of regional centres of expertise.

A broad range of services the key

Tax-funded municipal services are the mainstay of social welfare and health care services and are available to all regardless of social position or economic circumstances. The overall responsibility for arranging service provision will be more clearly separated from the provision of services.

The purpose of government grants to the municipalities is to provide a clear source of funding which allows the municipal authorities to make long-term plans for social welfare and health care policy. Public funding channels will be developed so as not to cause undue supply or demand for services, and client fees will be sized so as to encourage rational use of services.

Private social welfare and health care services both supplement municipal services and provide an alternative. The division of labour between private and public health care services will be made clearer so the services can form a functioning network. Ideally, doctors and other staff should not work in both the public and the private health care sector as commonly as they do at present. The aim is to increase competition between the public and private sectors and prevent the problems which arise from dual loyalties.

An adequate supply of skilled labour is crucial

Social welfare and health care staff will be supported in staying on longer in work and early retirement will be discouraged. Workplace development will help the sector become more attractive and able to retain its employees. New operating models, quality criteria and the use of technology will all require supplementary training for employees in the sector. Supplementary training will be developed alongside the development of quality management, personnel planning and job descriptions. Individual employees and entire workplaces will be provided with better skills for working in a multicultural environment, and steps will be taken to promote the integration of foreign employees in the workplace.

The Ministry of Social Affairs and Health and the Ministry of Education will adjust training in the sector to meet changes in service needs and the labour market and work together with the Association of Finnish Local and Regional Authorities to ensure that trained staff can maintain their professional skills. Training volumes should also take account of the imminent retirement of the baby-boom generation.

Functional steering models for managing services

The government will continue to be responsible for ensuring Finnish citizens have equal access to social welfare and health care services regardless of where they live. The central authorities will steer the operations of the municipalities and service providers by setting targets and issuing recommendations, and by producing and distributing information and operating models in support of local operations. Legislation or control of resources will be used in situations where essential objectives cannot be reached any other way within a reasonable period of time and where equal access to social welfare and health care services is threatened. Monitoring will be developed to enable prevention and correction of flaws and inadequacies in service content and quality.

Towards regional cooperation

Regional cooperation will be stepped up in the areas of social welfare, primary health care and specialized health care with the aim of creating seamless service chains, regional care programmes based on national frameworks for care and services, and comprehensive regional information systems. Specialized health care and primary health care services should be produced in organizations large enough to ensure the quality and flexibility of services. During the first phase of development, new models will be tested in voluntary test regions.

Regional cooperation in social welfare services will be promoted by developing regional centres of expertise and establishing a variety of network structures together with the municipalities and other regional actors. The municipalities can improve the efficiency of how they use their resources by networking with each other and thereby ensuring the availability of specialized services.

A reasonable level of income in all life situations

The minimum social security benefits should be in keeping with general income trends. Periodic reviews of benefit levels will help ensure a reasonable level of consumption even for those who have to depend on support for long periods of time. Means-tested and last-resort benefits form a rational combination. The levels of means-tested benefits should be raised so that changes in people's life situation need not immediately leave them dependent on income support. The economic situation of families with children should be eased by ensuring the real level of child allowance. The level of the full national pension will be raised in line with the long-term development of the economy.

Taxation and social income transfers should be coordinated in different life situations so that people have a reasonable basic income which nevertheless leaves them an incentive to work. The income security of the long-term unemployed will be simplified by introducing a link between the levels of labour market support and social assistance. The administrative procedures for benefits paid by the Social Insurance Institution should be simplified.

People dependent on social security will be provided with a reasonable basic income at a level in just proportion to the income of the active population. Work must be retained as a sufficiently attractive option.

3

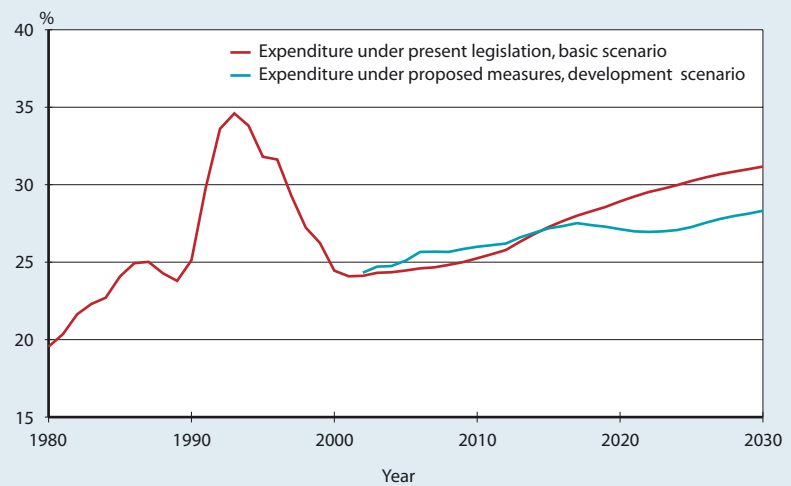
THE ECONOMIC IMPACT OF THE STRATEGIC LINES

Implementation of the strategic measures proposed above would make Finnish society better prepared to face the changes lying ahead. As we enter the 2020s, the number of people in work will be the same as today despite the change in population age structure. This will require a considerable increase in the employment rate. According to the EU's employment guidelines, the employment rate should be brought up to 70 per cent by the year 2010. But Finland can set a more ambitious target and seek to achieve a rate well above 70 per cent by 2010. Improvements in public health and the functional capacity of older people will reduce the age-related demand for care. The reduction of unemployment and the older age of retirement will ease the growth pressure on social protection expenditure.

The proposed measures could hold social protection expenditure at under 30 per cent of GDP for the next 30 years. Achievement of this objective will, however, require an earlier start to working life, later retirement, a rise in the employment rate, and postponement of the need for care services as people live longer and old people stay fitter to an older age. The economic assumptions applied here are the same as those used in calculating the 'basic scenario' for social protection expenditure presented in section 4.4 below. In the development scenario presented there, unemployment is assumed to have come down to 5 per cent, while minimum benefits and child allowance are increased in line with the proposals outlined above. In the early years, additional investment in training and rehabilitation will raise the level of expenditure. Around 2015 this situation will change as the growth in social protection expenditure slows down to less than it would be under present legislation.

Figure 1.
Estimate of the impact of the strategic lines on social protection expenditure³, social protection expenditure as a proportion of GDP

³ The 'basic scenario' for social protection expenditure as it would be under present legislation is presented in section 4.4 below.



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4

BACKGROUND TO THE STRATEGIC LINES

4.1

Principles for the development of social protection

Basic points of departure

The basic principles included in the Government's report on social protection approved by Parliament in spring 1997 still provide a workable point of departure for the development of Finland's social welfare and health care policy in the years ahead. According to these principles

- The coverage of Finnish social protection will be maintained at the present good level and the level also kept reasonable
- Incentives will be provided to encourage people to find and actively seek work
- The responsibility for arranging social protection and the responsibility for financing it must be clearly defined and workable
- The financing base must be made sustainable

The framework of reform

The Nordic welfare state model will continue to provide the general framework for the reforms to the Finnish social protection system in the years ahead. The model appears well equipped to survive the ongoing changes in the economic and social environment.

Social protection is intended to support equal opportunities for all citizens. Section 19 of the new Constitution of Finland, which came into effect on March 1, 2000, guarantees the right to indispensable subsistence and care for those who cannot themselves obtain the means necessary for a life of dignity. The section develops this theme by guaranteeing the right to basic subsistence in the event of unemployment, illness, disability, old age, at the birth of a child or in the event of the loss of a provider. This is a general right to be provided in detail under separate legislation. The public authorities are also obliged to guarantee adequate social, health care and medical services for all and to promote the health of the population. Paragraph 3 accords constitutional protection to the welfare of children and their right to personal development. The Constitution also contains a section (section 18) on labour protection, while section 6 provides for the equality of the individual.

The separate responsibilities of the individual, the family, the local community and society as a whole interweave and coalesce in providing for the welfare and wellbeing of each one of us. Social protection reinforces equality between the sexes.

The system of social protection also clearly caters to the needs of the economy. It softens the process of adjusting to changes in the economic and social environment, brings stability in the midst of social change and reinforces social cohesion by providing security at the times in their lives when people are most vulnerable. In helping to reconcile the demands of a career with family life, social protection raises the general level of wellbeing in society.

Besides the national level, social welfare and health care policy also has another context in Finland's membership of the European Union, international commitments and cooperation with international bodies. In many areas of social protection, EU legislation is now part of Finland's national legislation, while social policy in Finland and other EU Member States is set against the global background of the international human rights conventions, of which Finland has so far ratified more than 40.

European Union guidelines

The most recent European Councils, which are responsible for setting the overall framework of policy for the European Union, have emphasized the importance of the social dimension. The key values of the European social model set out in the European Council Conclusions are social cohesion, prevention of all sorts of social exclusion and discrimination, and equality between men and women. Consolidating and modernizing the model to meet the challenges lying ahead will require reinforcement of the interdependency between economic growth, employment and social cohesion.

The EU's Social Policy Agenda for 2000-2005 sets out the priorities for supporting economic, employment and social policy in line with the objectives. Social protection

will need to be modernized and improved to meet the changes in the knowledge-based economy and social and family structures and take social protection into account as a productive factor. It is fundamental to the European social model that economic performance and social development are inseparably intertwined.

Public health has been an EU responsibility ever since the Maastricht Treaty (1993), and even more so since the Treaty of Amsterdam, which came into effect in 1999. According to the Amsterdam Treaty, the Union's authority does not extend over health care services, although it does allow for cooperation between Member States. Article 152 of the Treaty gave the EU a clear duty to take

human health protection into account in all Community activities. The same line is taken in the Commission's proposal for a new programme for Community action in the area of public health, which would cover the period 2001-2006.

EU policy emphasizes gender equality as primarily an independent pillar of employment policy. More effort is needed in reconciling the demands of career and family life.

Since 1978, the European Union has had a Community programme for promoting health and safety at work. This has provided the basis for most of the directives currently in force, including the framework directive on health and safety at work. A new framework programme on health and safety at work is currently under preparation. Community legislation also includes regulations covering the insurance sector.

As a Member State of the EU, Finland contributes to developing European social policy, but assesses changes from the perspective of its own national interests. Finland's goal is for a European welfare model which is both competitive and legitimate from the point of view of the ordinary citizen. However, too much Community-level regulation should be avoided.

The four main objectives of the European Union's guidelines for the development of social policy have been:

- **to make work pay and provide secure income**
- **to make pensions safe and pension systems sustainable**
- **to promote social inclusion**
- **to ensure high quality and sustainability of health care**

4.2 Finnish social protection today

Actors responsible for social protection

The Ministry of Social Affairs and Health is responsible for the strategic lines guiding more detailed policy in the area of social welfare and health, for related planning, and for the preparation of legislation and decision-making in this area. In discharging its responsibilities, the Ministry can draw on the expertise of public Agencies and Institutions in the social welfare and health care sector. The chart below presents the main national actors in the social welfare and health care sector.

The economic and social environment for social welfare and health care policy is becoming ever more international. Actors outside Finland – primarily the EU and international organizations – are not dealt with here.

Chart 1.

**National actors and responsible agents
in social welfare and health care policy**

The sphere of social protection		
Preventive social welfare and health care policy	Social welfare and health care services	Income security
Main actors		
<ul style="list-style-type: none"> • Parliament and the Government • Ministry of Social Affairs and Health • Other ministries • Central government agencies and institutions • Occupational Safety Inspectorates • Provincial State offices • Municipalities • Joint municipal boards • NGOs • Slot Machine Association • Universities 	<ul style="list-style-type: none"> • Parliament and the Government • Ministry of Social Affairs and Health • Other ministries • Central government agencies and institutions • Provincial State offices • Municipalities as service providers • Joint municipal boards • Private service providers • NGOs • Slot Machine Association 	<ul style="list-style-type: none"> • Parliament and the Government • Ministry of Social Affairs and Health • Other ministries • Social Insurance Institution • State Treasury • Employment pension institutions/ Central Pension Security Institute • Insurance Supervision Authority • Sickness and pension funds • Unemployment funds • Pension foundations • Insurance companies • Municipalities

Social protection today

Figure 2.

Household income differences and the redistributive effect of income transfers 1990-1999

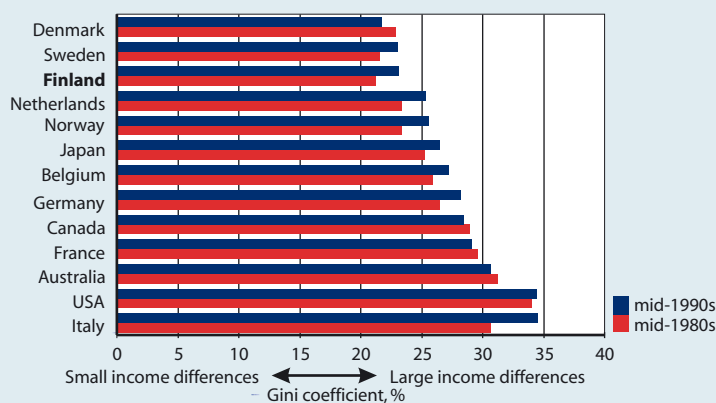
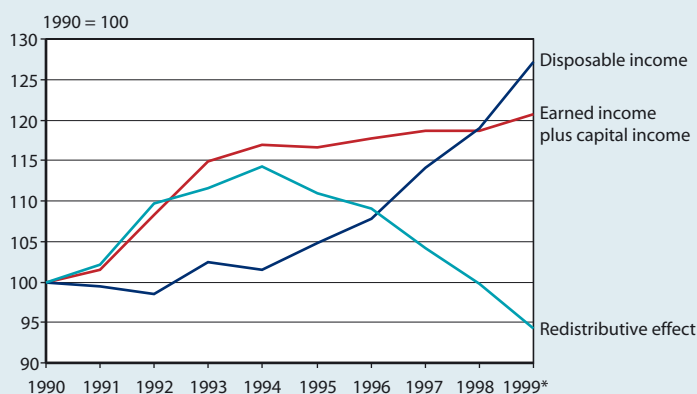


Figure 3.

Income differences in some OECD countries

Figure 4.

Poverty indicators 1989-1999

Source: Stakes

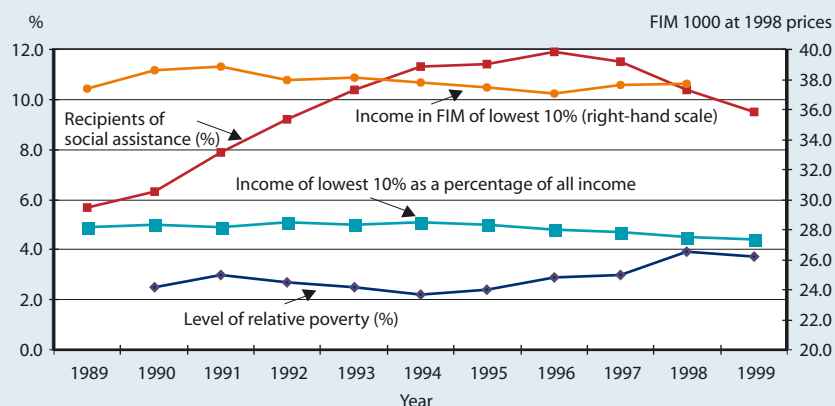
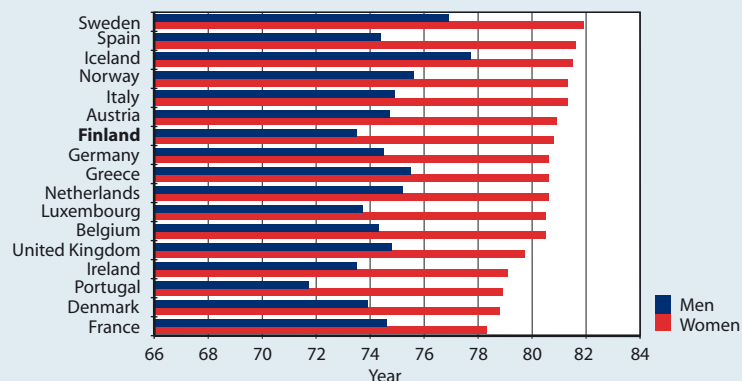


Figure 5.

Life expectancy in EU Member States in 1998



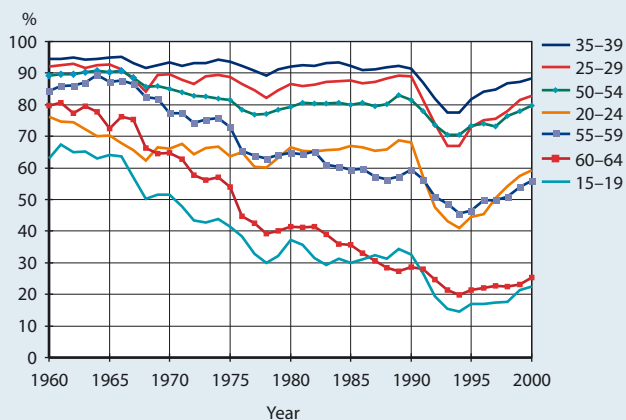


Figure 6.

Percentages of men with a job in each age-group in 1960-1998, and a projection to the year 2000

Figure 7.

The homeless 1987-1999

Source:
Housing Fund of Finland

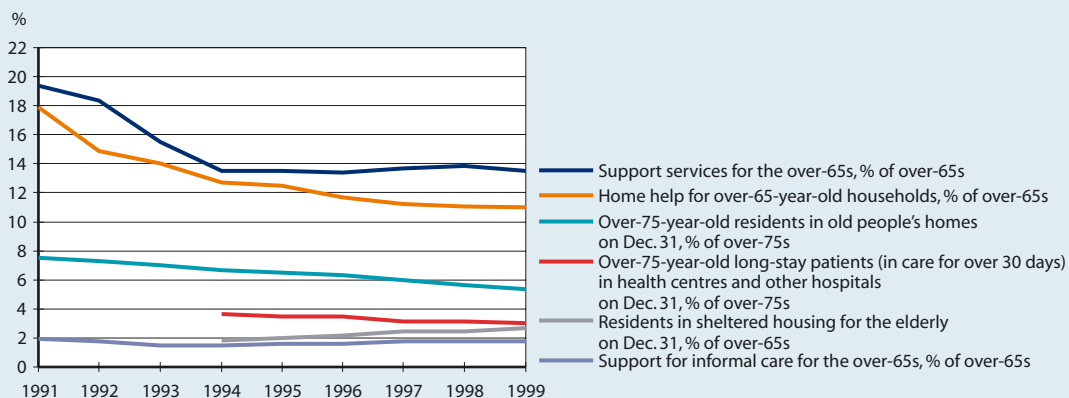
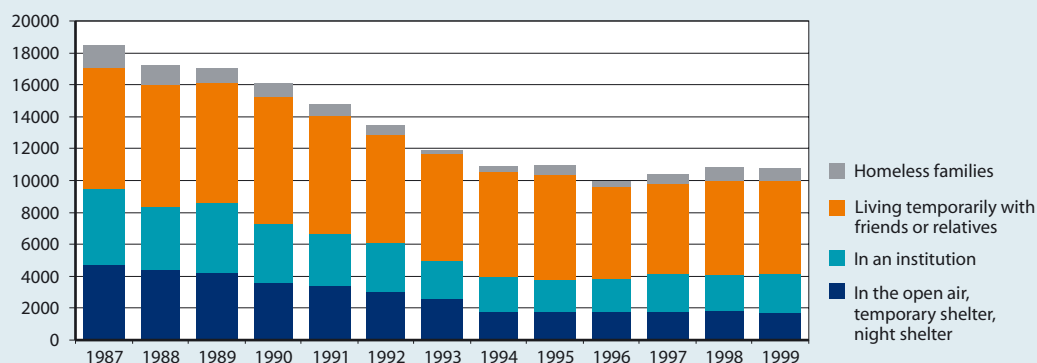


Figure 8.

Recipients of services for the elderly 1991-1999, %

Figure 9.
Municipal daycare places for children 1970-1999

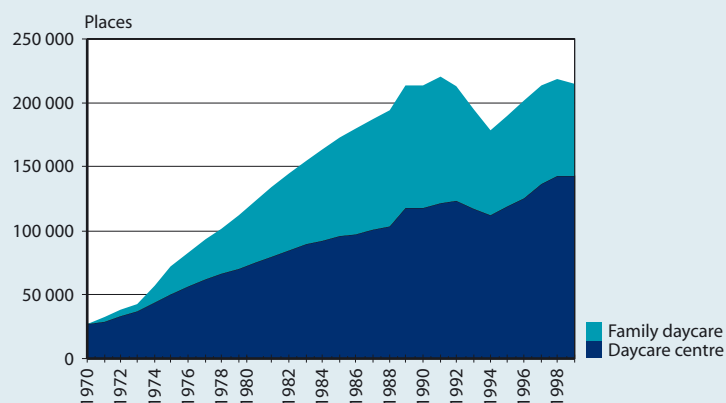
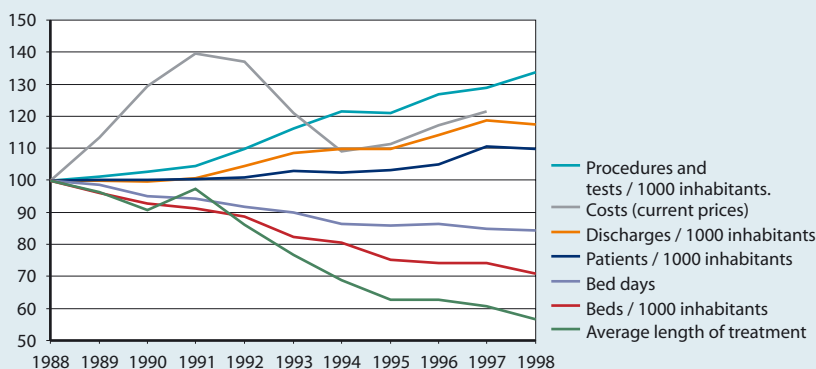


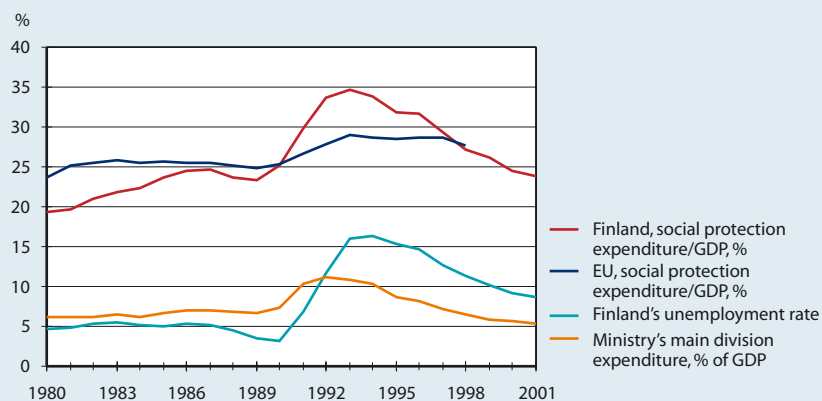
Table 1.**Social security benefit recipients 1990-2000 (1000 persons)**

	1990	1992	1994	1996	1998	2000 *
Total pensioners on Dec. 31**	1097	1118	1147	1170	1183	1197
- old age pension	737	763	789	823	844	861
- disability pension	301	309	311	302	288	277
- individual early retirement pension	43	56	63	57	44	35
- unemployment pension	55	44	43	41	49	55
Daily unemployment allowance***	289	795	896	819	703	660
Daily sickness allowance***	398	355	283	275	278	285
Parental allowance (mothers)***	111	115	110	105	99	97
Allowance for the care of young children on Dec. 31	81	93	95	74	85	84
Social assistance***	314	465	577	610	535	460

* estimate** excl. those receiving only survivor's pension *** total recipients during the year

**Figure 10.****Resources and performance in specialized hospital care wards 1988-1998 (combined totals for all hospitals, 1988=100)****Table 2.****Municipal social welfare and health care staff 1990-1999 by area of work**

Area of Work	1990	1992	1994	1996	1998	1999
Combined total	206 700	212 700	205 700	215 900	220 400	217 700
Total in social welfare, of which	81 700	89 100	84 600	91 400	95 300	93 400
- Children's daycare	40 800	46 500	41 900	46 600	50 100	48 500
- Institutional care of the elderly	17 700	17 300	17 600	18 100	18 400	18 200
- Home care	11 600	12 600	12 900	13 700	12 700	13 700
Total in health care, of which	111 700	110 700	107 700	110 200	111 100	111 000
- Primary health care	46 500	50 200	45 500	48 900	49 100	48 700
- Specialized medical care	65 100	60 500	62 200	62 200	62 900	61 300

**Figure 11.****Social protection expenditure and the Ministry of Social Affairs and Health's main budget division as a percentage of GDP, comparison with the EU average, plus unemployment rate trend**

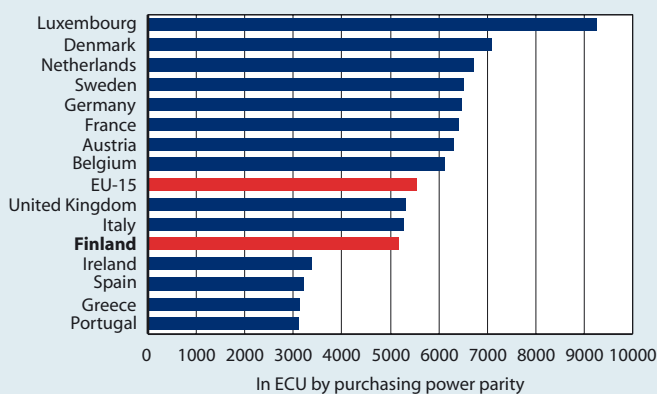


Figure 12.

Per capita social protection expenditure in EU Member States in 1998 (in ECU by purchasing power parity)

Source: Eurostat

Figure 13.

Social protection expenditure by category in 2000, percentages of total expenditure, FIM 193 billion

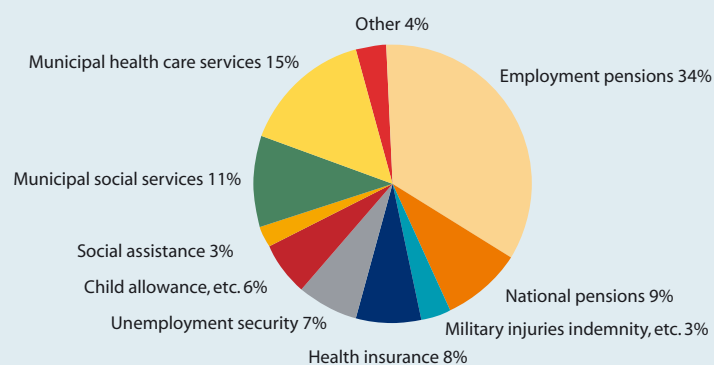


Figure 14.

Social protection expenditure funded through the State budget as a percentage of all social protection expenditure in 2001

Social protection expenditure FIM 193.4 billion

Social protection expenditure funded through the budget, total FIM 67.7 billion

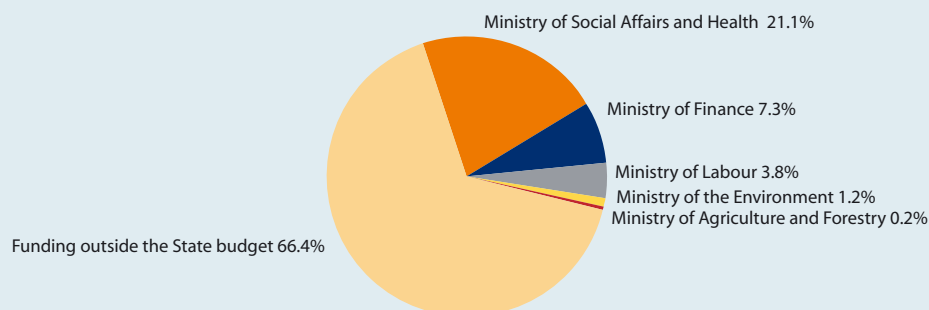


Table 3.

Total financing of social protection in Finland 1998-2000, financing contributions as percentages

Financing body	Contribution to financing of social protection, %		
	1998	1999	2000 *
State	25.5	24.7	24.0
Municipalities	18.1	18.8	18.9
Employers	36.6	37.2	37.4
Insured	12.9	12.8	12.7
Other income	6.9	6.6	7.0

* estimate

Table 4.

Financing of social protection in EU Member States in 1998 (%)

Source: Eurostat

	Central government & local authorities	Employers	Insured	Other income
Denmark	67.2	8.7	17.9	6.3
Ireland	61.3	23.9	13.6	1.2
United Kingdom	47.9	27.0	24.4	0.7
Luxembourg	46.3	25.0	24.2	4.4
Sweden	45.8	39.1	9.3	5.9
Finland	43.1	36.2	13.8	6.8
Portugal	42.6	29.5	17.8	10.0
Italy	38.3	44.7	14.8	2.2
EU-15	35.4	38.2	22.7	3.7
Austria	34.5	37.5	27.1	0.9
Germany	30.9	37.4	28.7	3.0
France	30.7	46.5	19.9	2.9
Greece	29.2	37.6	24.1	9.1
Spain	27.2	52.2	17.5	3.1
Belgium	24.4	50.6	22.4	2.6
Netherlands	15.7	30.1	34.3	19.9

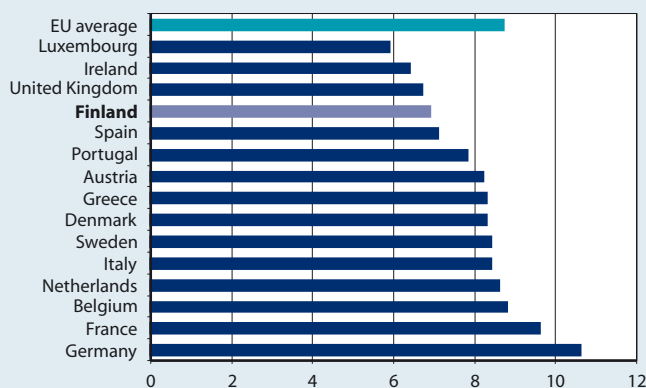
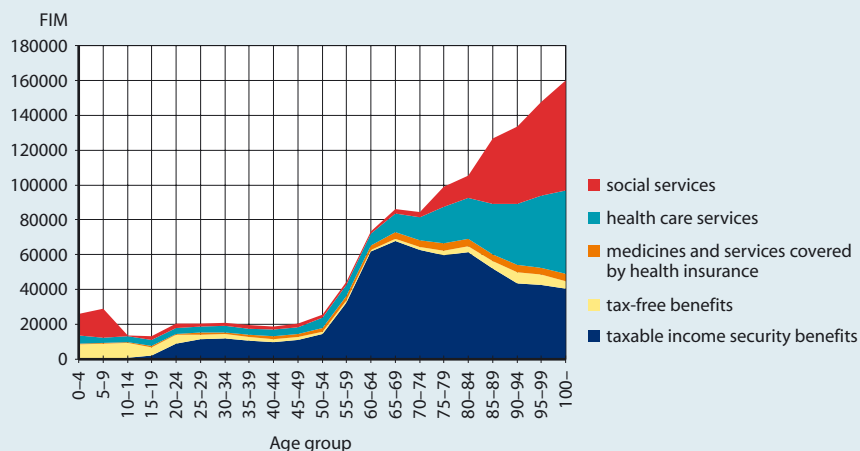


Figure 15.

Total health care expenditure in EU Member States in 1998 as a percentage of GDP

Figure 16.

Finnish social protection expenditure by age group and type of benefit in 1998, FIM per capita



Strengths and weaknesses

Strengths	Weaknesses
Impact on living conditions	
<ul style="list-style-type: none"> • Social stability • Internationally low number of poor people • General improvement in public health • Higher life expectancy 	<ul style="list-style-type: none"> • Growing income differences • Danger of social exclusion for risk groups • Health differences between population groups • Growing regional differences • High death rate from accidents
Operating policy	
<ul style="list-style-type: none"> • Social protection system enjoys public support • System has advanced equal participation of men and women in working life • Relatively strong progressive income redistribution • Services readily accessible and comprehensive • Equal access to treatment and care • High level of labour protection and occupational health care • No occupationally based pension systems • Social partners involved in preparing reforms 	<ul style="list-style-type: none"> • Tendency to early retirement • High tax wedge • Problems of access and quality in welfare services for the elderly • Bottlenecks in access to social welfare and health care services for special groups (child welfare, mental health, substance abuse) • Major regional differences in access to services and treatment practices • Problems associated with changes in working life
Functionality of the system	
<ul style="list-style-type: none"> • Reasonable level of income and services guaranteed when people are most vulnerable • Good coverage • Well-educated social welfare and health care staff • Decisions taken in the 1990s have improved the financing for social protection expenditure • Stabilizing effect of partially fund-based pensions system • Launch of counter-cyclical EMU buffers (unemployment security, employment pension) 	<ul style="list-style-type: none"> • Increased dependence on last-resort income transfers • Incentive problems in the income transfer system • System too complicated • Service users have little influence • Multiplicity of financing sources for services • Poor transparency of financing • System hard to steer • High average age of staff in the service sector • Shortage of doctors

4.3

Changes in the economic and social environment

National solutions relating to systems of social protection are closely linked to social development in the country concerned. Countries can be categorized in different ways according to the ways they organize their social protection services and welfare services in a broader sense. A frequently used method has been to divide European welfare states into 'Nordic', 'Continental', 'Southern European' and 'Anglo-Saxon' models. We cannot talk of a common European social protection model, as the systems differ in the different countries (benefit levels, qualification criteria, structures, methods of financing). We can, however, talk in terms of common challenges and shared objectives which unite EU Member States (e.g. equality and an adequate level of security). The experiences of other countries can be useful in seeking solutions to challenges which have more common than distinguishing features.

The following trends in the economic and social environment bear similarly on Finland and other countries irrespective of their national models of social protection.

Globalization

The vigorous expansion and deregulation of capital and labour markets and international business and trade have stimulated growth in the world economy and led to increases in wealth, if also to increases in regional wealth differences. Globalization and international trade have accelerated technological change and placed new and greater demands on the skills and educational level of the workforce. The trend involves the growth of business chains and networks, a development reflected in the changing rules of the game in working life. Globalization and economic integration also have considerable implications for public health and general wellbeing. One negative feature of globalization is that it could undermine the capacity of economically weaker countries to manage the process of social and economic development. The increasing wealth is not equally distributed, with disproportionate benefits accruing to already wealthy countries. This could lead to an increase in relative poverty, inequality and social exclusion.

Impact at national level

A number of different assessments have been made of the effects internationalization will have on the operation of national labour markets, income distribution and employment and social policy. No clear picture has yet emerged. Deregulation of the capital markets and trade (WTO), tax competition and the unregulated operations of multinational corporations could lead to stiffening international competition in which the importance of social protection is overlooked. Tax competition between different countries will also have implications for the financing of social protection. The impact of international decisions on Finnish social welfare and health care policy must be constantly assessed.

European integration

The European Union at present constitutes an internal market of 15 countries and 378 million citizens, in which obstacles to the free movement of goods, services, labour and capital have been minimized. Monetary union (12 countries from the beginning of 2001) will probably be extended further during the course of the present decade. The objective in recent years has been for an ever closer linkage between the economy, employment and social policy. The Treaty of Amsterdam and the Treaty of Nice agreed in December 2000 will serve to strengthen the social dimension of the EU. The gathering together of the fundamental rights of citizens into the EU's Charter of Fundamental Rights will bring the Union closer to its citizens and strengthen its political nature. The reforms to Union institutions and decision-making procedures and enlargement to the east have implications for the social dimension. Eastward enlargement represents a logical extension to the process of European integration and will strongly shape the Union over the next ten years. The territory of the EU is facing population pressure from the Mediterranean rim countries, where the birth rate is high. The direction and content of development in Russia will be important for Russia's near neighbours.

Impact at national level

Membership of the euro area has brought stability to the Finnish economy. Under the principle of subsidiarity, social protection remains a responsibility of the Member States, but cooperation at European level is to be strengthened in, for example, the reform of social protection systems. The EU has considerable authority in certain areas of social protection (e.g. labour protection, mobile workers). The Social Policy Agenda for 2000-2005 emphasizes the importance of cooperation at Union level for coping with the common challenges lying ahead. Member States will cooperate in drawing up national plans to prevent social exclusion and an assessment of the sustainability of pension systems. Eastward enlargement of the EU and the development of relations with Russia are important issues for Finland. Pressures for tax harmonization will cause pressures to cut the tax rate in Finland and could affect the financing of social protection. The EU's new Charter of Fundamental Rights will not have any direct impact at national level.

Demographic changes

The ageing of the population is a common feature of the industrialized nations. This is a common trend throughout the EU, but occurs at a different pace in the different Member States. The birth rate is falling throughout the Union. In 2000, natural increase across the total EU population of 378 million was an estimated 343,000. In most parts of the Union, population growth is caused mainly by net immigration. The changing age structure is causing increased demand for income support and social welfare and health care services. A shrinking workforce is having to bear responsibility for the income of the large slice of the population outside working life. EU enlargement will presumably increase the movement of people inside the Union, although the labour market impact of eastward enlargement may be exaggerated.

A falling birth rate and the spread of single-parent households and multiple families are the development trends of the future. The meaning of the traditional care family is changing. The new family models will have implications for social protection. Women are increasingly going out to work in countries where this has not been part of the traditional pattern as in the Nordic countries. These changes will increase the need for children's day care and care services for the elderly.

Impact at national level

The ageing of the population is one of the greatest challenges facing Finland in the years ahead. Viewed internationally, the process will be particularly rapid in Finland. While the dependency ratio for the elderly was below the EU average in 2000, by 2020 it will be the second highest in the EU after Italy. In about 2030, a quarter of Finns will be over 65. The numbers on old age pension will increase by a quarter of a million by the year 2010. The financing of the pensions system will be in difficulties unless the average age of retirement is raised from the current age of just under 60. Increasing numbers of elderly people, higher life expectancy and the increased need for care which comes with old age will combine to increase the demand for social welfare and health care services, most notably after 2020. The falling birth rate will mean fewer children. An increasing number of people will be living alone. People in the 60-75 age group will be fitter and more able to take care of themselves, and almost everyone in this age group will be living independently in their own home. The present population of 30,000 men aged 80-84 will have almost tripled by the year 2030. There will be a greater need for care and assistance particularly among the over-85s. They will require a variety of support and long-term care services. The ageing of the native population will make it essential to bring in more foreign labour if the expected labour shortage is to be filled.

Technological development

The technological revolution — with the new economy a key factor — has raised productivity to new heights. This has been matched by a reduction in low-paid, low-productivity jobs in industry. These have been replaced by new jobs in new sectors, including the service sector. The increased productivity brought by technological development has facilitated a long period of growth. In the next ten years, growth will probably be strongest in information services, knowledge-intensive industries, Internet trading, services and biotechnology. The employment opportunities brought by the new technology are expected to clearly outweigh the jobs lost. The most visible aspect of the technological revolution, the still-developing information technology, will necessitate changes in education, working practices and organization, and management procedures. Some people may be left behind and become excluded. The revolution in the labour market caused by the new technology could increase the need for social protection. Application of the new technology in the social welfare and health care sector will gather pace as the present decade unfolds.

Impact at national level

In Finland, the sectors which will take on most new employees will be those in which the ability to use information technology is one of the key skills requirements. The latest information and communications technology will also become a standard feature of the social welfare and health care sector. Advertising and sale of social welfare and health care services and medicines over the Internet will create a need for coordination, for example among EU Member States. In sparsely populated areas, the new technology will be able to help in organizing services and provide support for people to manage in their own homes. Staff training requirements will change. Finland will be well equipped to apply and rapidly introduce new solutions.

Changes in working life and the work environment

Modern workplaces are characterized by flexibility, interaction, the spread of teamwork, the drive to cut staff, knowledge-intensiveness and more horizontal management structures. There is a demand for well-educated and professionally competent labour. The forms of work are caught up in an ongoing process of change. The principle of fast production has ended the intermediate storage of products. Rapid, decentralized production of components requires considerable flexibility in working hours from the workforce and may contribute to levels of stress experienced at work. The labour market faces the threat of splitting in two in terms of skills and level of income. Knowledge-based work can be expected to reduce the traditional danger of accidents at work and occupational diseases, but at the same time work will become mentally more stressful. Free movement of labour within the EU will require cooperation and coordination of social protection. Social protection can be useful in situations where an employee is unable to achieve or retain employability without outside help. Social protection is also needed to help reconcile the demands of a career with family life.

Impact at national level

Demand for labour in the new export industries is concentrated on professions and types of work for which those who became unemployed during the recession have no training — the supply and demand for labour do not match. The new technology will require a high level of professional expertise from labour in those sectors where production is not transferred to countries with cheaper labour. This transitional phase will take place at the same time as the baby-boom generation reaches retirement age. Preserving the working and functional capacity of an ageing population will be one of the key challenges of the decades ahead. Issues of equality at work will also have to be addressed if large numbers of women are going to be able to participate in working life.

Employment

Unemployment is one of the world's biggest problems. The International Labour Organization has estimated that there were approximately 160 million people out of work around the world at the turn of the millennium. The true figure is probably higher. In EU Member States, 14 million people are still without work, and the employment rate in 2000 was only around 62 per cent. One woman in two has a job, while the corresponding figure in the United States is two out of every three. The rate of employment among older workers is particularly low. From the perspective of the social protection system, the most awkward problem is the structure of unemployment: half of the unemployed have been out of work for over a year. Unemployment is worse in the least-developed peripheral areas and in declining industrial sectors. The poor match between labour supply and demand is a problem. The years ahead will bring a considerable increase in demand for labour in the health care sector.

Impact at national level

At the turn of the 1980s and 1990s, Finland's employment rate was still as high as 74 per cent, only to fall during the 1990s. It has since risen again (to 67 per cent at the beginning of 2001). The objective for the next few years is to bring the employment rate up to 70 per cent. Employment has not returned to pre-recession levels except among women over 55. There has been a slight rise in employment among the over-55s. The imbalance in the labour market has become markedly qualitative and structural in nature. There have long been problems with finding skilled labour in regions and sectors experiencing rapid growth. Unemployment will already start to give way to a shortage of labour within the next 5-10 years, as the baby-boom generation begins to retire. To keep the working-age population at its present level, Finland will need 20,000 immigrants of working age every year.

In April 2000, there were 27,500 people out of work in the various professional groups employed in the social welfare and health care sector: 15,500 from health care and nursing, 7,100 from the social welfare sector, and 4,900 day care workers. Unemployment was highest among the under-35s. There is an imbalance between supply and demand, with areas of net migration gain experiencing shortages of, for example, fill-in staff for temporary posts. The average age of professionally qualified personnel is high, and approximately a quarter of social welfare and health care employees (55,000 people) will reach retirement age within the next ten years. Securing an adequate supply of skilled and motivated personnel for the public sector will be a key issue. Other European countries will also be competing for care sector workers.

Poverty and social exclusion

A considerable proportion of the world's people live below the poverty line. Reducing poverty is one of the greatest challenges facing the UN. The main criterion for gauging poverty is income. Social exclusion is a process in which progressive estrangement from what is considered a normal way of life happens simultaneously on several different dimensions of wellbeing.

Approximately 50 million people in EU Member States are classified as poor (income less than 50% of average income). The largest single cause of poverty is unemployment, behind which lies a complex chain of causes. Poverty reinforces social exclusion. Providing employment opportunities for the unemployed is the most effective, if not the only, way to reduce poverty. The EU has set the objective of reducing the number of people living below the poverty line from the present 18 per cent to 10 per cent by 2010 (Income less than 60% of average income). The aim is to reduce the number of children living in poverty by half. At EU level, action to combat poverty and social exclusion is one of the key themes in the reform of social protection. During 2001, each Member State will draft a 2-year National Action Plan against poverty and social exclusion. This will be followed later by agreement on common indicators for monitoring progress. The UN is seeking to reduce absolute poverty by half by 2015.

Impact at national level

The recession of the 1990s made the problem of poverty and social exclusion a prominent feature of Finnish society. The scale of the problem was entirely new. This new poverty was in most cases the result of unemployment and/or overindebtedness. There was a big increase in the number of people dependent on social assistance. This was most noticeable in the steep rise in the amount of assistance provided by voluntary organizations. The poverty rate in Finland is nevertheless among the lowest in the world. Economic growth has now eased the situation somewhat, but there are still around 85,000 long-term unemployed. The numbers receiving social assistance began to come down at the end of the 1990s, but the individual periods on assistance are still long. Poverty and deprivation are now more clearly a problem of the unemployed, and the poverty risk among the long-term unemployed is greater than it was. Since the end of the recession, poverty has not so much grown as deepened.

The four pillars of the Nordic model of social protection — earnings-related benefits, basic security for all, special income transfers for people on low incomes, and equal access to welfare services irrespective of personal wealth, gender or place of residence — will continue to form the foundation for work to combat poverty and social exclusion. However, there will also be a need for special measures if we are to keep these problems from getting out of hand. The next few years will show whether we can deal with the problem of poverty and social exclusion using the universal approach traditional to Nordic policy, or whether Finland will have to follow the example of some other countries by moving more in the direction of programme-type solutions.

Public health and the human environment

The health of the world's population has improved and average life expectancy has risen. Even so, the health differences between different sectors of the population have, if anything, increased. The future trend in public health will be affected negatively by poverty, war, the ageing of the population, mortality from infectious diseases, the spread of HIV, and the increasing prevalence of unhealthy eating habits, smoking and drug abuse. Chronic diseases such as cardiovascular diseases and occupational diseases and accidents are significant causes of mortality and morbidity, and are still on the increase, especially in the developing countries. Over the next few decades, smoking will become the world's biggest single cause of death and sickness. European challenges in the area of health policy are related to the ageing of the population and issues in the peripheral areas of the EU, including managing the technological revolution and associated social change plus the issues of social exclusion, environmental health, consumer safety and the growing role of the markets.

Environmental health is an aspect of public health work which aims to improve the health of the population, prevent environmental threats to health and remove already established threats. The ageing of the population, the spread of mass catering and increasing international trade in foodstuffs all pose new threats to the safety of our food. The main focus of foodstuffs supervision lies in preventing serious threats to public health. Particularly important in this respect are the monitoring of illness caused by foodstuffs and drinking water, and assessing the risks from chemicals and gene technology.

Impact at national level

Important questions in the immediate future will include the higher mortality rate among men and the major health differences between different sectors of the population, accidental and violent deaths among young men, widespread chronic diseases which worsen with age, mental health problems, functional capacity among the elderly, new health threats facing children and young people, and psychosocial security. A growing number of decisions which affect the health of Finns are taken at European Union level, in neighbouring area cooperation and in other international cooperation, and national health policy is therefore no longer enough. An effective response to the health challenges brought by economic and technological globalization will necessarily involve international cooperation.

The most common environmentally mediated diseases include epidemics caused by contaminated water and food and respiratory diseases caused by impurities in indoor and outdoor air. Important health problems caused by the quality of indoor air include lung cancer caused by radon, health problems associated with passive smoking and allergies caused by mould and fungal growth in damp houses.

Public finances

The outlook for the international economy over the next few years is still generally good. Growth in the industrialized nations should remain relatively good and the expansion in world trade continue. The economic outlook for the euro area looks bright, despite continued high unemployment. Growth is also expected to continue in the OECD countries. Cyclical factors have strengthened the public finances. But even so, there is more uncertainty in the international economy caused by uncertainty over the direction of the US economy, oil prices, the value of the euro, inflation, interest rates, the share market, employment and tax levels. The public sector's share of the national economy varies considerably in different countries.

Impact at national level

The Finnish economy is presently experiencing its eighth successive year of strong growth. At the beginning of 2001, there was almost FIM 380 billion still outstanding on the central government debt taken out to cope with the consequences of the recession, and approximately 12 per cent of government expenditure currently goes on servicing this debt. Apart from the debt and the persistent problem of unemployment, the national economy is in good shape. Municipal finances have recovered from the recession of the early 1990s, although there are major differences from one area to another. The prospects of growth continuing over the next few years are excellent. As a member of the euro area, Finland can no longer use the traditional mechanism for balancing the economic cycle, devaluation. There has been a considerable fall in public expenditure as a proportion of overall output. Membership of the euro area emphasizes the importance of the relation between the economic cycle and fiscal policy.

The financing outlook for social protection is now better than it was before the savings and reforms of the 1990s. Finnish social protection expenditure as a proportion of GDP has come down compared to other EU Member States. The weakening of the economic dependency ratio may slow down economic growth and savings. The yield from most forms of taxation is expected to fall, and Finland cannot seriously maintain a tax ratio significantly higher than the EU average. If economic growth were to falter and the economic dependency ratio fail to improve, sustainable financing of social protection could become a difficult question. The biggest challenges will come when public expenditure related to the ageing of the population starts to really take off in the 2010s.

Regional development, urbanization

The world's population is becoming more and more concentrated in the cities, with most growth taking place in the largest urban centres, the megalopolises.

Regional development has been very uneven. The uncontrolled growth of the cities is also exacerbating other social problems: slums, crime, drug abuse, social exclusion and health problems. Peripheral areas are losing their ability to provide employment, with the result that the population may end up concentrated in just a few areas with sufficient growth potential. Within the EU, the structural funds have been used to even out regional differences in development.

Impact at national level

There has been a lot of internal migration within Finland. In 2000, there were over 260,000 recorded removals, the highest number since 1974. Most parts of the country are experiencing a net loss of population, leading to a relative rise in the numbers of old people and the demand for services in the affected municipalities. This is accompanied by a reduction in income-tax-based funding of services. In municipalities experiencing a net migration gain, the working-age population is relatively large and demand for services is concentrated on day care and education. The growth of urban areas is reinforcing regional differences in development, although in Finland this has not reached the level of the problems experienced in many European metropolises. Finland, too, will need to take account of the multicultural nature of contemporary society. The process of organizing comprehensive social welfare and health care services in the different parts of the country is a demanding task, and EU enlargement will alter the focus of regional aid.



Central government steering of the municipalities

The Ministry of Social Affairs and Health's planning and grant system went through considerable changes in the 1980s and 1990s. Government grants to the municipalities are no longer designated for a specific purpose or tied to a plan approved by the central authorities. The structure of funding for municipal services has changed and the grants are not as important as they once were to the municipal finances. The legislative basis for social welfare and health care is primarily composed of loose, framework legislation. Central government steering operates largely through the provision of information. In the next few years, we shall have to decide whether the framework legislation should be tightened up, or whether ways should be sought to make information-based steering more effective. A stable funding base for the municipalities, better predictability of income and a moderation of the growing gaps between different municipalities are all essential to the securing of services in the future.

The most important national and international variables influencing the future of social protection are the ageing of the population, globalization (incl. networking of production), economic development at national level, working life challenges in the information society and regional concentration. Taken in isolation, none of these changes would have a dramatic impact on social protection, but their combined effect could be considerable.

4.4 Development of social protection expenditure

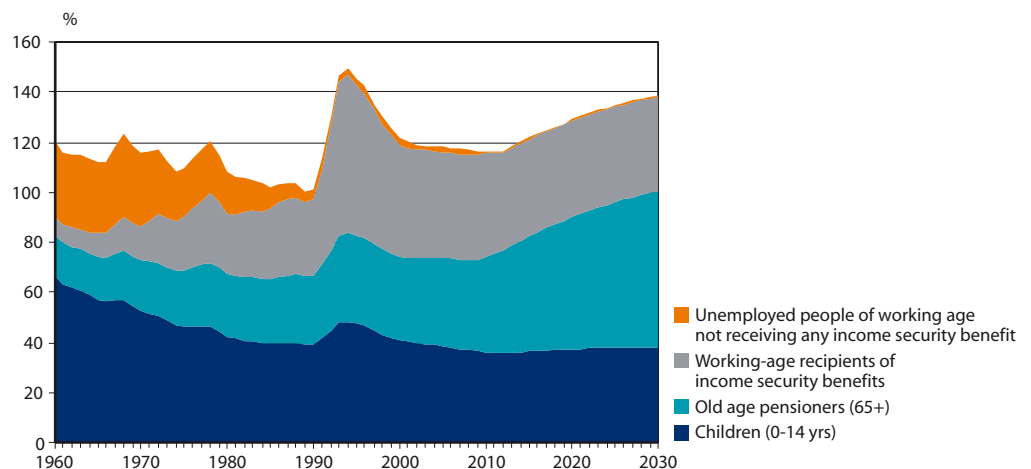
The demand for social protection and the ability to meet this demand will be most strongly affected by demographic trends, economic performance and employment.

Development of the economic dependency ratio

The development of the economic dependency ratio will be the most pressing challenge of the next few decades from the perspective of social protection. The economic dependency ratio depicts how many people are dependent for their income on the product of one employed person. The drop in the employment rate and widespread unemployment weakened the ratio in the first half of the 1990s. The resulting pressures on the income security system are illustrated by the fact that since the 1990s almost every person over the age of 18 who has not been in gainful employment has been entitled to some form of income security benefit.

The economic dependency ratio is affected by population age structure. Demographic forecasts suggest the proportion of old age pensioners will grow rapidly after 2010 as the baby-boom generation retire and life expectancy continues to rise. Over the next few decades, the proportion of children is expected to remain stable, albeit at a very low level. The economic dependency ratio will continue to be undermined by a low employment rate, high unemployment and the prevalence of early retirement. The employment rate among over-55s in Finland is one of the lowest in the OECD, with only one in three people in this age group still actively involved in working life.

Figure 17.
**The economic
dependency ratio
1960-1998 and
the projected
trend to 2030**



Development of social protection expenditure under present legislation

The basic scenario projection is based on how expenditure could be expected to develop under the legislation currently in force. The basic assumption is for a deceleration in the rate of productivity growth from 2.2 to 1.6 per cent, or an average of 1.9 per cent per year. Assumed annual growth in GDP is 1.8 per cent. The unemployment rate is assumed to come down to 7 per cent.

The mass unemployment and GDP collapse of the 1990s caused a steep rise in social protection expenditure as a percentage of GDP. The economic recovery has brought rapid improvement. The retirement of the baby-boom generation will cause a further deterioration. The greatest pressures to increase expenditure will be in the areas of employment pensions and services.

Figure 18.

Development of social protection expenditure (excl. user fees) as a percentage of GDP 1960-1999 and the projected trend to 2030

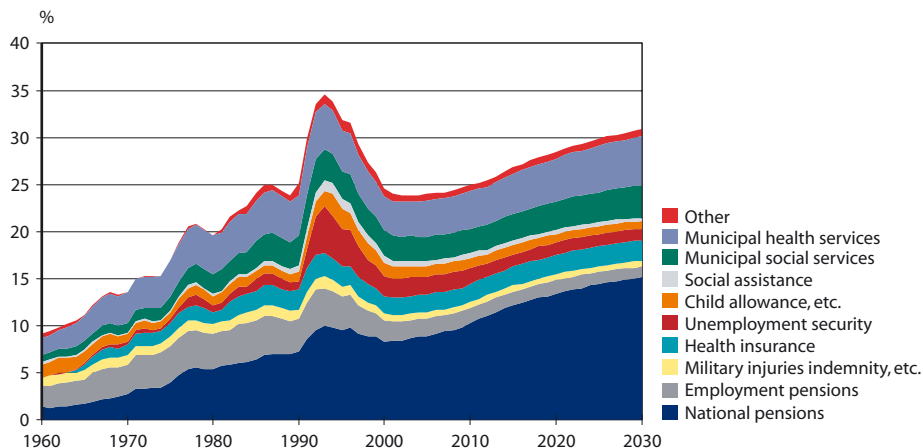


Table 5 presents the variables in the economic and social environment of social protection. These are based on the assumptions used in the basic scenario projection of social protection expenditure (figure 18). Some of the variables in the table will be affected directly by decisions on the social protection system, and some indirectly.

Table 5.
Variables in the economic and social environment under the basic scenario projection of social protection expenditure

Variable	2000	2010
Population structure		
0-6-year-olds	420 000	385 000
- % of total population	8.1	7.3
15-64-year-olds	3 469 000	3 519 000
- % of total population	66.9	66.7
Over-75s	338 000	409 000
- % of total population	6.5	7.8
Economy		
GDP volume, FIM bn	788	1 014
Central government debt/GDP, %	50	18
Local government debt/GDP, %	4	0
Tax ratio, %	45.9	42.0
Change in the level of earnings, %	4.4	4.0
Change in the price level, %	3.5	2.0
Social protection expenditure/GDP, %	24.5	24.9
Employment		
Employment rate, %	67	68
- men: 55-59 yrs	61	67
60-64 yrs	27	31
- women: 55-59 yrs	60	68
60-64 yrs	21	30
Unemployed, (%)	256 000 (9.7)	220 000 (8.3)
Under-25s	74 000	65 000
Income transfers		
Individual or special pension, old age pension, 65+	797 000	936 000
Recipients of early retirement pension	432 000	537 000
Recipients of social assistance over the year as a whole	465 000	452 000
Average age of retirement, yr ¹⁾	57.7	58.1
Portion financed by the insured, %	12.4	13.4
Portion financed by employers, %	36.8	38.7

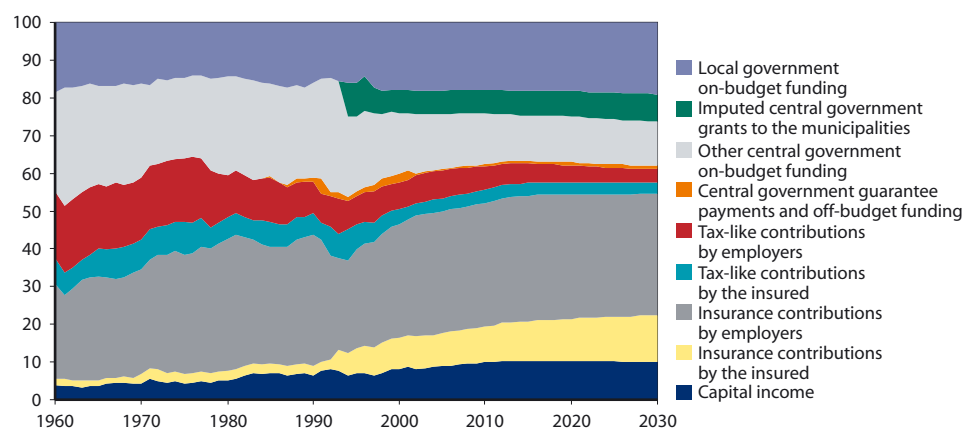
¹⁾ Including part-time pensions

Financing social protection

The biggest change in the financing of social protection will be in relation to the portion financed by the insured. The portion financed by employers (insurance contributions) will also rise, if relatively moderately. The proportion covered by tax-like contributions will correspondingly be reduced. The portion coming from the yield on pension funds will rise. The policy adopted in respect of the pension funds in the future will have a considerable influence on the level of employment pension contributions.

Figure 19.

**Financing structure of
social protection expenditure
1960-1999 and
the projected trend to 2030, %**



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